

Fact Sheet

~~For Background Use Only~~

August 1964

Soviet Industrial Growth Lowest Since 1946

The steady deceleration of the growth of Soviet industry which has been evident since 1962 continued during the first six months of 1964. This is the main conclusion to be drawn from the Soviet statistical report published in Pravda July 23, 1964 (released by Tass July 22d), which claims an industrial output growth compared with mid-1963 of 7.5 per cent - the lowest figure since the year of 1946. The average industrial growth planned for 1964 and 1965 is 8.4 per cent.

Industrial growth in the USSR is still appreciably faster than in most Western economies, but the margin in favor of the USSR is shrinking fast:

<u>Year</u>	<u>% Growth of Soviet Industrial Output</u>
mid 58-59	+ 12%
" 59-60	+ 10%
" 60-61	+ 8.4%
" 61-62	"nearly 10%"
62-63	+ 8.5%
63-64	+ 7.5%

Industrial countries in which industry is now expanding faster include Germany, producing 8 per cent more than in May 1963,¹ Great Britain (10.5 per cent up in April 64 by comparison with a year earlier¹) and most conspicuously Japan, where industrial production is reported as 18 per cent greater in April than in the same month of 1963.¹

Even in good years, the Soviets usually stress industrial growth figures, rather than over-all national product or national income data, because they do much better in industry than in agriculture. While more reliable than Soviet agricultural statistics, Soviet industrial production claims are inflated by double counting: avoiding this, "Annual Economic Indicators for the USSR" (issued by the Joint Economic Committee of the US Congress) estimates Soviet annual industrial growth at 6.3, 6.7, and 7.2 per cent for 1960, 1961 and 1962 respectively, in contrast to Soviet official figures of 9.6, 9.3, and 9.5 per cent for those years. Judging by these precedents, Soviet industrial growth in the first half of 1964 may have actually been about 5 per cent.

A year ago, one of the main reasons for the deceleration of the growth rate of industrial output reported then was the exceptionally harsh winter of 1962-63. Because of that development, and the fact that the winter of 1963-64 was unusually mild, it would have been logical to expect an acceleration of growth in industry this year. Indeed there may have been some such sequence of events in the exclusively industrial sector of the economy because the Central Statistical Administration (C.S.A.) reports that:

¹ Economist, July 18, 1964

The bad harvest of last year had an adverse effect on the food industry and on a number of branches of light industry. Without these branches the volume of industrial production rose by more than 10 per cent.

This explanation is not fully supported, however, by the growth rates of individual industries when they are compared with last year. The total output of the chemical industry expanded at a rate of 14 per cent; but expansion had been 17 per cent in 1962 and 1963. On 30 July Pravda pointed to more than a dozen chemical plants spread out across the country which were behind schedule in going into operation. Even though fertilizer production (a priority task of the Soviet economy) represented an increase of nearly a quarter over the same period in 1963, the 11.6 million tons produced came to well under half of the 1964 target of 25 million tons.

The engineering industry, which has no connection with agricultural inputs, shows the same decelerating trend as chemicals:

	<u>Mid-Year</u>	<u>% Growth</u>
1962 over 1961		15%
1963 over 1962		14%
1964 over 1963		"almost 11%"

1964 is the third consecutive year in which the chemical industry has shown the fastest rate of growth within the economy. Other sectors which did well were ferrous and non-ferrous metals (+ 8%), electrical power (+ 11%), the fuel industry (+ 8%) and building materials (+10%). As usual the main laggard was the light and food industries which grew by only 2% (little more than needed to keep pace with the growth of the population), and even this rate was due in part to the imports of U.S. and Canadian wheat.

Among individual products, the highest growth rates were mainly recorded in the industries working for agriculture, e.g. mineral fertilizers (+ 26%), insecticides and weed-killers (+ 46%), tractor ploughs (+ 22%). But there were also outstanding performances in plastics (+ 27%), natural gas (+ 20%), window glass (+ 21%), washing machines (+ 27%), refrigerators (+ 20%) and TV sets (+19%). Most of these lag far behind consumer demand.

By comparison with these rates, the growth of the "metal-eaters" groups (pig-iron, steel, rolled metal and iron ore) was a sober and uniform 6%.

The major decline in the Soviet growth rate (mid-1963-64) appears to have been not the backwash from the agricultural failures of 1963 but among other things, the falling-off in the growth of labor productivity which is shown as only 4 per cent compared with 6 per cent gains in 1963 and 1962. The target for 1964 had been dropped noticeably to 4.5%. Some explanation for the decrease might be found in dislocations caused by the increasingly widespread change-over to a five-day, 40 hour week from the present six-day week.

The state labor force (workers, employees and state farmers) which grew at an extremely high rate during the year has apparently not made itself felt in production. It added 2.4 million people to its books, making the total now 71.4 million. Since last year the growth over 1962 was 2 million, the evidence suggests that there may have been an increase in the rate of flight from the land during 1963-64, due to the harvest failure. Another likely explanation is that the reduction in the Soviet armed forces discussed by Khrushchev last winter is now taking effect in the labor statistics.

The foreign trade of the USSR has resumed its trend towards brisk expansion, growing by 9% in 1964, compared with only 2% in 1963. But a substantial proportion of this growth may be due to the large-scale wheat imports and the concomitant sales of gold.

An early, major improvement in the Soviet economy does not seem likely. First, there is the decline reported at mid-year and the labor productivity drop to 4 per cent. Although the harvest is likely to be better than in 1963, the weight of agriculture in the national income is only around 20% and cannot boost the total greatly. Further, last year's crop failure brought on a distress slaughter of pigs (1 July 1962 -- 52.9 million; 1 July 1964 -- 36 million) and it will take time to recover old levels in meat processing and related industries (Khrushchev has recently tried to persuade Kazakhstani to raise for human consumption and eat horse meat). The 5 per cent increase in over-all investment (as opposed to 16.2 per cent in 1958 and 13.2 per cent in 1959) -- is a small improvement over the low of 4% last year but not enough to ensure rapid growth in the future.

Soviet production figures might be more impressive if data on the Soviet arms industry were included, but Khrushchev keeps this information secret. The increase in Soviet arms production after 1958 explains the decline in (civilian) investment and in some part the consequent drop in the industrial growth rate.